

## Blue Cross & Blue Shield of Rhode Island

### Trend and Comparison Supplement to the Affordability Report Submitted in Conjunction with Plan 65 Non-Group Rate Filing Effective February 1, 2008, March 1, 2008, and April 1, 2008 Billing Cycles August 10<sup>th</sup>, 2007

#### I. Historical Rates of Trend for Existing Products

The following table illustrates the latest trend factors that were filed and approved for Plan 65 Non-Group for the respective year/benefit category. Also shown at the bottom of the table is historical actual Plan 65 claims PMPM trends for calendar years 2003-2006 and year to date 2007.

<i>Category</i>	<i>2003/2002</i>	<i>2004/2003</i>	<i>2005/2004</i>	<i>2006/2005</i>	<i>2007/2006</i>	<i>2008/2007</i>
Part A Deductible	1.0690	1.0569	1.0411	1.0605	1.0586	1.0568
Part A Copay	1.0345	1.0238	1.0411	1.0439	1.0420	1.0403
365 Add'l Days	1.0300	1.0254	1.0330	1.0370	1.0340	1.0340
Skilled Nursing Facility	1.0664	1.0544	1.0967	1.1018	1.0998	1.0980
Part B Deductible	1.0000	1.0000	1.0976	1.1273	1.0565	1.0534
Part B Copay	1.0357	1.0708	1.0646	1.0419	1.0499	1.0601
Foreign Travel Emergency	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
<b>Composite Trend</b>	<b>1.0416</b>	<b>1.0611</b>	<b>1.0669</b>	<b>1.0579</b>	<b>1.0575</b>	<b>1.0634</b>
<b>Historical Actual</b>	<b>1.0134</b>	<b>1.1164</b>	<b>1.0735</b>	<b>1.0212</b>	<b>1.0667<sup>(1)</sup></b>	<b>N/A</b>

(1) The trend shown is calendar year to date May 2007 over year to date May 2006.

The table below illustrates BCBSRI's filed trends versus those illustrated in recent industry surveys:

<i>Source</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
BCBSRI Non-Group MediGap Trends (from above)	4%	7%	6%	6%	6%
Mercer Survey Median Mercer Trend <sup>(1)</sup>	8%	8%	8%	6%	7%
Aon Consulting Survey <sup>(2)</sup>	N/A	N/A	N/A	10%	9%

- (1) Mercer Survey trend represents the median rating trend from industry survey. From *January 2007 Mercer Oliver Wyman Carrier Trend Report 2007.1 Analysis*.
- (2) Aon Consulting trend represents the national average predicted increase in claims cost. From *Spring 2007 Health Care Trend Survey*.

The Mercer and Aon trend surveys were the only trend surveys readily available at the time of this filing that tracked Medicare supplemental trends separately from other medical trends. As can be seen in the table above, the rating trends used by BCBSRI are mostly in line with actual observed trends and are at or below the average rating trends used in the industry for Medicare Supplemental business. Blue Cross & Blue Shield of Rhode Island is committed to containing the increase in claims costs in all its lines of business. However, due to the fact that Plan 65 is supplemental to Medicare, BCBSRI does not have the ability to “manage” claims like other lines of business. To this end, in its last non-group Plan 65 rate filing, BCBSRI introduced rate credits for non-group members who enroll when they are newly eligible for Medicare. The goal of this program was to encourage more growth in enrollment for the younger age categories and reduce the average age of the pool. Over time this program should moderate increases in the average claims expense. While the program is still young and it will take years of influence, the returns so far have been encouraging.

## II. Price Comparisons to Other Market Rates for Similar Products

### A. Comparison of Premium Rates (Medigap)

The following table compares premium rates for individual Medigap plans available in Rhode Island. Although the rating structure of the various Medigap plans available in Rhode Island vary significantly, rates for BCBSRI compare favorably for most age and gender categories. In addition, BCBSRI recently launched a new Select L product, which offers basic coverage at a lower premium rate than other Medigap plans.

Company	Rating Category	Medigap A	Medigap C	Select C	Select L
BCBSRI <sup>(1)</sup>	Age-in	\$82	\$128	\$80	\$71
	Base	\$117	\$183	\$115	\$101
AARP Health Care Options <sup>(2)</sup>	Age-in	\$82	\$124	\$94	N/A
	Base	\$103	\$156	\$118	
	Tier I	\$113	\$171	\$129	
	Tier II	\$154	\$233	\$176	
Bankers Life/Casualty <sup>(3)</sup>	Age 65	\$90	\$190	N/A	N/A
	Age 70	\$102	\$223		
	Age 75	\$119	\$269		
	Age 80	\$141	\$330		
Continental General <sup>(4)</sup>	Age 65	\$165F \$184M	\$191F \$213M	N/A	N/A
	Age 70	\$199F \$222M	\$231F \$258M		
	Age 75	\$230F \$256M	\$266F \$296M		
	Age 80	\$252F \$281M	\$291F \$325M		

Mutual of Omaha <sup>(4)</sup>	Age 65	\$114F \$131M	\$139F \$160M	N/A	N/A
	Age 70	\$136F \$156M	\$165F \$190M		
	Age 75	\$158F \$181M	\$192F \$221M		
	Age 80	\$182F \$209M	\$221F \$254M		
USAA Life <sup>(5)</sup>	Age 65	\$101NS \$110S	N/A	N/A	N/A
	Age 70	\$120NS \$131S			
	Age 75	\$120NS \$131S			
	Age 80	\$127NS \$139S			

(1) First year age-in rate applicable to new members enrolling within six months of eligibility for Medicare Part B as primary payer. Base rate applies after 3-year age-in credit program.

(2) Age-in rate applicable to new members enrolling within 3 years of initial Medicare Part B effective date or 65<sup>th</sup> birthday. Base rate applies after 4 year age-in credit program. Tier I and Tier II rates apply to members enrolling more than 3 years after initial Medicare Part B effective date, based on underwriting requirements.

(3) Rates vary based on attained age.

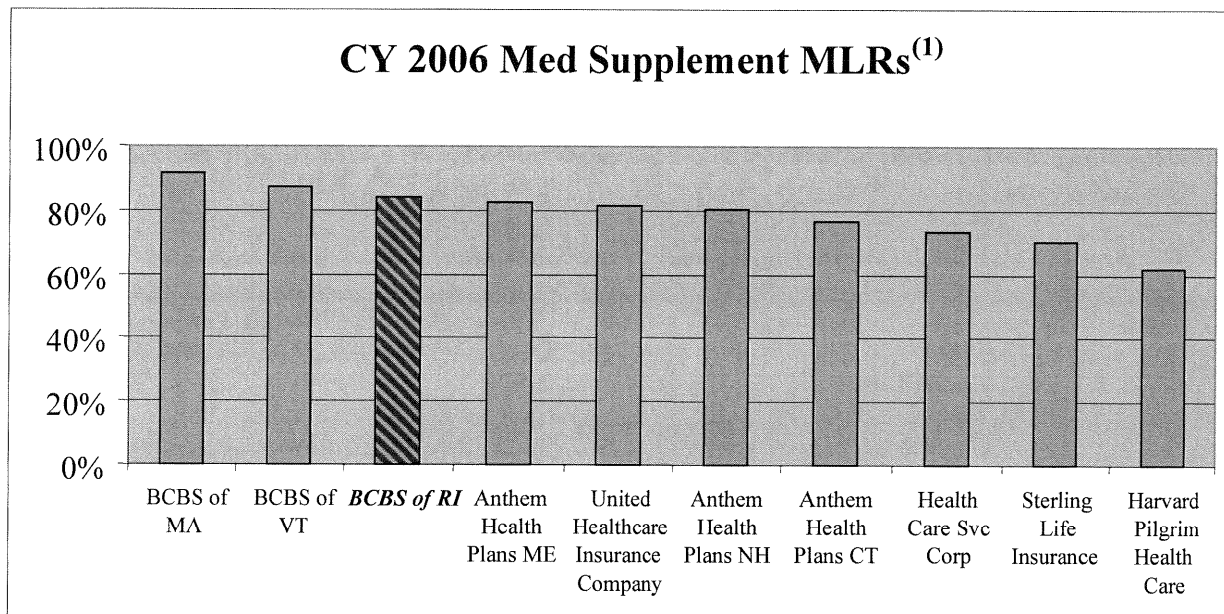
(4) Rates vary based on attained age and gender.

(5) Rates vary based on attained age and smoker vs. non-smoker.

## B. Comparison of Medical Loss Ratios (Medigap)

The following chart shows a comparison of medical loss ratios for CY 2006 for regional plans offering Medigap coverage. It shows Rhode Island as having the third highest medical loss ratio. This implies that relative to premium paid, BCBSRI Plan 65 members received one of the greatest benefit values.

BCBSRI's strategy with regards to medical loss ratios is to target an amount equal to 100% less the targeted contribution to reserve and administrative expenses. Provided that our administrative expenses and contribution to reserve targets remain in-line and/or lower than the other carriers, our medical loss ratios should remain in the upper half of this comparison.



(1) Based on NAIC annual statements for Medicare Supplement business.

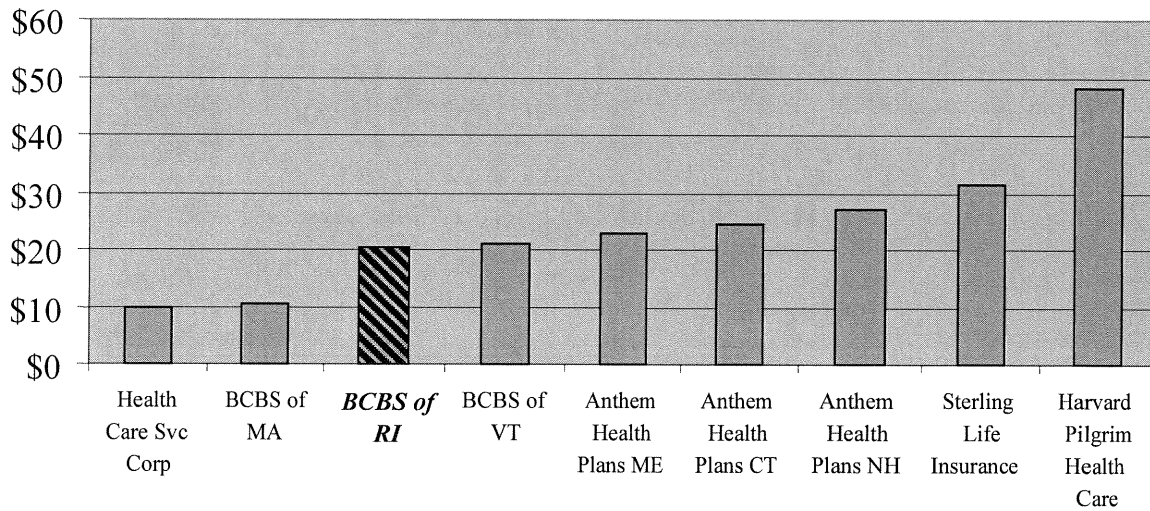
### **C. Comparison of Administrative Costs (Medigap)**

Blue Cross & Blue Shield of Rhode Island takes actions to control our operating expenses both during the budget setting process and during the year. The process recognizes that prudent decisions must be made balancing the desire to control operating expenses with the need to limit increases in benefits expense:

- The budget process includes a comparison of our operating expenses compared to other insurers operating in the New England Region.
- Proposed new initiatives are evaluated for their return on investment prior to determining what new activities will be undertaken.
- Expense management is an ongoing process. The management of each division has been directed to manage their operations within their budget while achieving the operational goals of the organization. Failure to meet this goal will be considered in the employee evaluation process. Expense management has also been incorporated as a component of the Executive and Employee incentive plans.

The following chart shows a comparison of administrative costs (on a pmpm basis) for Medigap coverage between the regional plans. It shows Rhode Island as being the third lowest amongst the nine plans. Only the much larger Massachusetts plan and Health Care Services Corporation (which has a minimal presence in New England) is lower than BCBSRI. The results of this comparison suggest that BCBSRI's budgeting process for this market segment has been an effective cost control mechanism. Note that the inter-company expense comparison provided below is made on a dollar basis rather than a percent of premium basis because it avoids distortions that would otherwise be introduced by benefit design and prevailing medical cost differences among carriers.

### CY 2006 Med Supplement Administrative Expenses<sup>(1)</sup>



(1) Based on NAIC annual statements for Medicare Supplement business. Please note that since United Healthcare Insurance Company is a life and health company, administrative expense information is not available on NAIC annual statements.

### III. Trends by Service Category

The following table illustrates the overall trend factors by type of service applicable to this rate filing for Plan 65 Non-Group renewals for February 1, 2008, March 1, 2008, and April 1, 2008 billing cycles:

<i>Category</i>	<i>2007 Trend Factor</i>	<i>2008 Trend Factor</i>	<i>2009 Trend Factor</i>
Part A Deductible	1.0537	1.0601	1.0618
Part A Copay	1.1514	1.1585	1.1603
365 Add'l Days	1.0340	1.0385	1.0403
Skilled Nursing Facility	1.0773	1.0839	1.0856
Part B Deductible	1.0565	1.0840	1.0282
Part B Copay	1.0345	1.0462	1.0476
Foreign Travel Emergency	1.0000	1.0000	1.0000
<b>Weighted Total</b>	<b>1.0465</b>	<b>1.0579</b>	<b>1.0549</b>